Understanding the Home Buying Process

New Jersey Housing and Mortgage Finance Agency

Buying a home of your own is an important milestone. There are many steps along the way to becoming a homeowner and many decisions for you to make. The New Jersey Housing and Mortgage Finance Agency (HMFA) has prepared this brochure identifying the steps in the home buying process to assist you in becoming a homeowner.

Greetings from the New Jersey Housing and Mortgage Finance Agency

Congratulations on deciding to become a homeowner!

Buying a home is one of the most significant things you will do in your lifetime. There are so many things to think about and understand during the process that it can be overwhelming. At the Department of Community Affairs and the New Jersey Housing and Mortgage Finance Agency, we can help you through the process.

This booklet gives you all of the basic homebuying information you need to know. It walks you through the process of selecting and buying a home, offers tips on how you can simplify the process and get a mortgage, and provides information about the services and financial assistance HMFA can offer you on the purchase of your new home.

In New Jersey, we are committed to increasing the opportunities for homeownership across the state. We have set a goal of providing 100,000 affordable housing units to New Jersey families in 10 years, and a significant part of these housing opportunities are through homeownership.

Whether you have already made the decision to buy a home in New Jersey or are still thinking about it, we hope this booklet can guide you along your path to homeownership.

With all good wishes,

New Jersey Housing and Mortgage Finance Agency

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STEP ONE: Is Owning a Home Right for You?

There are many factors to consider when contemplating homeownership. While there are benefits and drawbacks to owning a home, you have to decide what is best for you. Homeowners experience the freedom of having a place of their own and the benefit of an investment where the equity potentially increases each year. Historically, homes have appreciated in value, making them worth more than when they were purchased. Additionally, there are significant tax benefits to owning a home and paying mortgage interest.

Homeownership also means you are responsible for all maintenance and repairs. In addition to paying the mortgage every month, there are other expenses to keep in mind: homeowner's insurance, property taxes, condominium fees and utilities. In the event you wish to move, selling a home is more difficult and more time consuming than giving notice to a landlord.

STEP TWO: Assess Your Finances

How Much Can You Afford?

Once you have decided to become a homeowner, you should review your finances and determine how much you can afford per month. Begin by analyzing your current monthly expenses. It may be necessary to cut back on some areas of spending in order to afford a mortgage payment and the other costs of owning a home.

Estimating a Monthly Mortgage

Loan Rate	Cost Per $1,000
5.00%	$5.37
5.50%	5.68
6.00%	6.00
6.25%	6.16
6.50%	6.32
6.75%	6.49
7.00%	6.65
7.25%	6.83
7.50%	6.99
7.75%	7.17
8.00%	7.34
8.50%	7.69

Example:

To calculate the monthly principal and interest payments on a $100,000 loan at 7.5% for 30 years, multiply 100 x $6.99 to get $699. To figure your monthly housing expenses, add property taxes, insurance and condo fees as shown in the chart on page 4.

- After paying your current monthly expenses (rent, groceries, etc.), do you have any money left over?
- How much are you willing to spend on housing each month?
- How much money can you use as a downpayment?

Most of the HMFA mortgage loan programs require that monthly housing expenses do not exceed 28% of your gross monthly income. The amount of housing expenses plus any other monthly payments on installment debt (e.g. credit cards, car loans) should not exceed 36% of your gross monthly income. Depending on the loan and insurance type, the ratios may be as high as 33%/41%.

Check Your Credit Report

When applying for a mortgage, a lender will look at how much you can afford to pay and your credit history to determine if you qualify for a loan. Consumers should check their credit report for discrepancies before going to a lender. Obtaining a copy of your credit report is simple and consumers living in New Jersey can obtain one free copy of their credit report per year. You can call or e-mail one of the three major credit reporting bureaus for a copy of your credit report.

Equifax 1-800-685-1111	www.equifax.com
Experian 1-888-397-3742	www.experian.com
Trans Union 1-800-888-4213	www.transunion.com

Housing Expenses	
Estimate your monthly mortgage *(See chart on page 3)*	$
Add in the monthly costs for:	
Mortgage Insurance *(approximately 75¢ per $ 1,000)*	+$
*Property Taxes	+$
Homeowner's Insurance	+$
Condominium Fees *(Home Owner Association fees if applicable)*	+$
TOTAL:	$
This represents your housing expense and, unless higher expenses are permitted, should not exceed 28% of your gross monthly household income before taxes. *(Total monthly Housing Expenses ÷ by gross monthly income)*	
Other monthly payments:	
Add your other monthly payments, such as car loans, child support, student loans, installment and credit card debts, etc.	+$
This total should not exceed 36% of your gross monthly income unless higher expenses are permitted. *(Total monthly Housing Expenses + Total Other Expenses ÷ by gross monthly income)*	$
** Call the town's tax assessor to determine the amount of taxes per $100 of assessed value.*	

The report will detail your credit history, including credit cards, loans and any court judgments or collection notices. When you receive the report, verify that all the information is correct. If you find a discrepancy, write a letter to the credit bureau to correct the entry.

Mortgage Pre-Qualification

Once you have determined how much you can spend each month on your new home, you can determine the maximum sales price you can afford. The maximum sales price you can afford will vary depending on your income and the size of your downpayment. A mortgage pre-qualification will give you an estimate of the amount of money you can borrow to purchase a home.

Any of HMFA's lenders can issue a pre-qualification letter to a prospective home buyer. You will need to provide the lender with information on your income, assets and debts. There is no fee for pre-qualification, and you are not committed to obtaining a loan at this time.

Mortgage Pre-Approval

A mortgage pre-approval is not the same as pre-qualification. A pre-approval means you have completed the application process and have a written commitment from the lender to give you a mortgage loan for a certain amount.

Pre-approval gives you an advantage when dealing with a seller since you already have financing in place. Typically, the home remains under contract while the buyer obtains financing. The seller will be able to complete the transaction sooner to a pre-approved buyer.

The disadvantages of pre-approval are that you must pay the application fee and complete the necessary forms verifying your employment, income and credit. If you later decide not to use the lender who issued the pre-approval, you will lose the application fee and have to go through the process again.

STEP THREE: Find Your Dream Home

What Kind of Home is Right for You?

Everyone's dream home contains different things. While your next door neighbor may want a backyard pool in his dream home, you may want a large yard for children to play in. Since there are many different ideas of what makes a dream home, you need to decide what features you absolutely must have in your new home.

Homes come in many styles and sizes. There are single-family dwellings, duplexes, town homes, apartment-like condominiums and cooperative units. Within each home there are many differences, such as the number of bedrooms and bathrooms. Create a list of things you must have for your new home.

Then make a wish list of those amenities you would like to have, but can live without.

- What kind of home do you want?
- How many bedrooms, bathrooms do you need?
- Where do you want to live?
- Are schools and shopping conveniently located?
- What kind of transportation is available?

Find a Real Estate Agent

In the past, a real estate agent was hired to assist a homeowner in selling their home. Today, it is common for home buyers to hire a real estate agent to assist them in finding a home. A seller's agent is obligated to the person selling their home and will look out for their interests. A buyer's agent is responsible to you and is obligated to follow your instructions. Real estate agents receive a portion of the sale price as their commission. The commission is typically paid by the seller.

Begin by asking family and friends for a recommendation. Interview several real estate agents before selecting one you feel comfortable with.

Make sure the agent you select is licensed in this state and familiar with some of the areas you are considering.

Selecting a Home

Once you have selected a real estate agent to help you in your search, share your home requirements and wish list with your agent. Discuss how much you can afford to spend. The mortgage pre-qualification process with a lender will help you determine the sales price you can afford. The information you provide will help your real estate agent locate homes that fit your needs.

The real estate agent will then show you homes that seem to fit your needs. Take your time when viewing a home for sale.
It may be helpful for you to take notes indicating what you like and what you don't. You should ask questions about the neighborhood, the quality of the home and what it takes to maintain it.

Once you have found a home you would like to own, work with your real estate agent to prepare a purchase offer for the seller to consider. This offer will often be accompanied by a good faith deposit that will be part of your downpayment.

Making an Offer

A purchase offer is a written proposal stating what you are willing to pay for the home, when the closing date will be and any other terms that will be included in the contract the buyer and seller need to agree upon. The offer will also include an expiration date, at which time the offer becomes invalid if the seller has not responded.

If a seller would like to change any portion of your offer, you may receive a written counter-offer detailing their changes to your offer. You are free to accept the counter-offer or make one of your own. The proposal does not become a binding contract until both parties agree to the terms and provide their signatures.

Hiring a Lawyer

Many home buyers choose to be represented by an attorney, although you are not required to hire an attorney to buy a home.
An attorney will be your advocate in a real estate closing (settlement) and can provide valuable assistance and legal advice.
Every contract for sale of real estate in New Jersey is subject to a three day attorney review period during which time the contract can be declared null and void.

Shopping for an attorney is similar to shopping for a real estate agent. Ask friends and family for recommendations. Be sure to choose a lawyer who has experience with real estate transactions and has represented home buyers before. Ask what services are performed and what the fees are.

Home Inspection

A professional home inspection should be completed prior to closing. The purchase offer and purchase contract must contain a clause that allows you to renegotiate with the seller or decide not to purchase the home if the professional home inspection reveals serious problems with the home. It is a good idea to be present during the home inspection.

The inspector will conduct a visual survey of the structure and systems of the home from basement to roof.

The inspector will provide you with an objective written assessment of the home and any problems discovered. An inspector will also provide you with an estimate for any repairs listed in the report. Your real estate agent or attorney can help you work with the seller to fix the problems or lower the purchase price.

STEP FOUR: Obtaining a Mortgage

Once you have a contract to purchase the home of your dreams, your HMFA lender will help you select the right mortgage for your situation. HMFA has below market-rate mortgage loans for first-time home buyers and buyers purchasing a home in an urban target area.

If you did not complete the pre-approval process, you will need to complete a mortgage application now. When completing an application, you will need to bring the following information:

- Pay stubs for the past two to three months
- Amount of credit card/other debt
- Proof of any other income
- Sales contract
- W-2 forms for the past two years
- Recent bank statements from all accounts
- Address and description of the property you wish to purchase
- HMFA requires three years of Federal tax returns to establish first-time home buyer status.

HMFA lenders will consider any number of variables in reviewing your mortgage application. To obtain an HMFA mortgage, you must meet the applicable income and purchase price limits, have an acceptable credit history, have money set aside if needed for the downpayment and have stable employment and income.

Your HMFA-approved lender can assist you in selecting the HMFA mortgage program that is right for you and determining if you meet the income/purchase price requirements. Call 1-800-NJ-HOUSE or visit www.nj-hmfa.com to find an HMFA lender near you.

Generally, when you apply for a mortgage, you will be charged a non-refundable application fee to cover the costs of the home appraisal, credit report and the lender's underwriting costs. The application process may take anywhere from one to six weeks depending on the availability of your underwriting documents. Within three business days of submitting your loan application, your lender is required by law to provide you with a good faith estimate of the closing costs you will pay. Once the lender has issued a loan commitment, a closing date can be set.

STEP FIVE: Prior to Closing

Prior to closing on your new home, you and your lender need to complete a few final tasks.

Title Search

Before the lender gives you a mortgage, a title search must be done to verify that the seller truly owns the property and that there are no liens (claims) on the property. If there are any claims, the seller is required to pay them prior to the closing.

Title Insurance

The lender will require title insurance to protect its investment in case a question about the validity of the title arises after closing. Additional title insurance to protect your investment is also available. Generally, the buyer pays for title insurance.

Homeowner's Insurance

You will need to obtain homeowner's insurance prior to closing. A paid receipt and declaration of issuance must be presented at closing.

Survey

Most transactions will require providing the lender with a certified property survey. The survey is a technical drawing of the property and its structures. A survey can take a few weeks and should be ordered well in advance of the closing date. The buyer is usually responsible for ordering and paying for the survey.

Flood Search

The lender will order a flood search on the property you are buying. The flood search determines whether the property is located in a designated flood zone. Federal flood insurance is available to those residing in flood zones and may be a condition of the mortgage commitment.

Septic Certification
If the property you are purchasing contains a septic tank, a system certification by an engineer or septic expert may be required.

Well Testing
The state requires that drinking water wells be tested for contaminants. If the property's served by a well, you will be given test results. You should consider test findings carefully and contact the county health offices if you have any questions.

Termite Inspection
In certain areas, a termite inspection must be completed prior to the closing. The seller generally pays for the property to be inspected for termite damage and infestation by a termite inspection firm. A certificate of inspection should be delivered to your lender before the closing.

Final Walk-Through
The sales contract should include a clause allowing you and your real estate agent to conduct a walk-through inspection of your new home no more than 24 hours prior to the closing. This final inspection gives you the opportunity to see that the seller has moved out and completed all repairs agreed to in the sales contract. Make sure all appliances and systems are working and that any items the seller agreed to leave behind are in the house.

STEP SIX: Closing

The closing (or settlement) is a meeting where you will complete the final paperwork to purchase the home from the seller, sign your mortgage documents and receive the deed and keys to your new home.

Homeowner's Insurance

You will need to provide the closing agent with a copy of your homeowner's insurance policy or a receipt stating that you paid the premium.

Payments

The closing agent will provide the buyer (you) and the seller with a list of all the costs that must be paid at this time. You make these payments and sign for your mortgage. By signing the mortgage, you agree that if you do not make payments, the lender is entitled to sell your property and apply the proceeds to your unpaid debt. You will also sign a mortgage note agreeing to pay back the loan.

Title

The owner will give you title to the house in the form of a deed. The title and mortgage will be recorded in the County Clerk's Office.

FREQUENTLY ASKED QUESTIONS

What programs does HMFA have that are different from what I would get from a bank or mortgage company?

HMFA offeres a variety of below market interest rate loans to first time homebuyers. In addition, these loans are available to people who have not owned a home as their principal residence for the past three years as well as to buyers who are purchasing housing in an urban target area.

Where can I get an HMFA loan?

All of HMFA's programs are available statewide through a network of participating lenders located in your community. Call 1-800-NJ-HOUSE to speak to an HMFA representative who will be happy to assist you in locating a lender. Approved lenders are also listed on the HMFA Web site: www.nj-hmfa.com

What are the benefits of using HMFA programs?

Savings! A lower interest rate means lower monthly mortgage payments. Because this saves you money on your mortgage payment, it may also provide you with an opportunity to qualify for a higher priced home. HMFA also provides free homeownership counseling to home buyers who receive a mortgage through HMFA's 100% Financing, Reverse Mortgage and Community Home Buyer programs. Downpayment and closing costs assistance is available under the Smart Start program for the purchase of homes in Smart Growth areas.

How do I qualify for HMFA programs?

To be eligible, you must be a first-time home buyer or not have owned a principal residence within the past three years. You must meet HMFA income guidelines, and the home must fall within HMFA's sale price limits, which vary from county to county. You must be able to qualify for a loan and have the ability to make a downpayment if one is required.

What type of home can I purchase using HMFA programs?

Single-family residences, one- to four-family homes, town homes, cooperative units, and condominiums to be occupied by the buyer all can be financed under HMFA's programs. Homes must be in the State of New Jersey.

How do I know which type of mortgage is best for me?

There is no simple answer to this question. The right type of mortgage depends on many different factors including, your current financial picture and how you expect your finances to change, how long you intend to live in your house and your comfort level with your mortgage payment. The best way to determine this is to consult with your lender.

How much will my credit history affect my ability to get a mortgage?

This is an issue that many first-time home buyers worry about. Obviously, the better your credit picture, the better off you are, but having some prior credit blemishes does not exclude you from getting a mortgage. You may want to get a copy of your credit report to review prior to your loan application. Nonetheless, if you have had credit problems, be prepared to address them and provide written explanations if asked. Your mortgage lender knows that there are legitimate reasons for past credit problems.

How much will I need for a downpayment?

The type of mortgage loan you obtain generally determines this. HMFA has mortgage programs that require a low or no downpayment at all. With private mortgage insurance, the downpayment minimum will range from three to five percent of the purchase price of the home. Zero downpayment loans are permitted for qualified borrowers; however mortgage insurance premiums for such loans are higher. Government insured loans can have lower downpayments in some instances.

How long will it take after I have applied?

Your mortgage lender will begin the work of verifying the information you have provided them. This process can take from one to several weeks, depending on a variety of factors. Within three days of your application, your lender will provide you an estimate of your closing costs. You will also get a statement about your estimated monthly payment, the cost of your finance charges and other facts about your mortgage.

Owning a home can be a very rewarding experience. Here at HMFA, we want to do everything we can to assist you. Please contact an HMFA representative directly at 1-800-NJ-HOUSE.

GLOSSARY OF TERMS

A

Acceptance
An offeree's consent to enter into a contract and be bound by the terms of the offer.

Adjustable Rate Mortgage (ARM)
A mortgage loan that stipulates the interest rate will be adjusted (*See:* Index) at a future date, usually 1, 3 or 5 years. The initial rate is usually lower than the prevailing market rate for fixed loans, but the borrower assumes the risk of a higher rate when the adjustment is made.

Affordability analysis
A detailed analysis of your ability to afford the purchase of a home. An affordability analysis takes into consideration your income, liabilities, and available funds, along with the type of mortgage you plan to use and the closing costs that you might expect to pay.

Amenity
A feature of real property that enhances its attractiveness and increases the occupant's or user's satisfaction, although the feature is not essential to the property's use. Natural amenities include a pleasant or desirable location near water, scenic views of the surrounding area, etc. Human-made amenities include swimming pools, tennis courts, community buildings, and other recreational facilities.

Amortization
The gradual repayment of a mortgage loan by installments.

Amortization schedule
A timetable for payment of a mortgage loan. An amortization schedule shows the amount of each payment applied to interest and principal and shows the remaining balance after each payment is made.

Amortization term
The amount of time required to amortize the mortgage loan. The amortization term is expressed as a number of months. For example, for a 30-year fixed-rate mortgage, the amortization term is 360 months.

Annual mortgagor statement
A report sent to the mortgagor each year. The report shows how much was paid in taxes and interest during the year, as well as the remaining mortgage loan balance at the end of the year.

Annual percentage rate (APR)
The cost of a mortgage stated as a yearly rate; includes such items as interest, mortgage insurance, and loan origination fee (points).

Application
A form used to apply for a mortgage loan and to record pertinent information concerning a prospective mortgagor and the proposed security.

Appraisal
A written analysis of the estimated value of a property prepared by a qualified appraiser.

Appraised value
An opinion of a property's fair market value, based on an appraiser's knowledge, experience, and analysis of comparable sales and other factors.

Appraiser
A state licensed person qualified by education, training, and experience to estimate the value of real property and personal property.

C

Certificate of eligibility
A document issued by the federal government certifying a veteran's eligibility for a Department of Veterans Affairs (VA) mortgage.

Certificate of reasonable value (CRV)
A document issued by the Department of Veterans Affairs (VA) that establishes the maximum value and loan amount for a VA mortgage.

Certificate of title
A statement provided by an abstract company, title company, or attorney stating that the title to real estate is legally held by the current owner.

Chain of title
The history of all of the documents that transfer title to a parcel of real property, starting with the earliest existing document and ending with the most recent.

Clear title
A title that is free of liens or legal questions as to ownership of the property.

Closing
A meeting at which a sale of a property is finalized by the buyer signing the mortgage documents and paying closing costs. Also called "settlement."

Closing costs
Expenses (over and above the price of the property) incurred by buyers and sellers in transferring ownership of a property. Closing costs normally include an origination fee, an attorney's fee, taxes, an amount placed in escrow, and charges for obtaining title insurance and a survey. Closing costs will vary according to the area of the country; lenders or realtors often provide estimates of closing costs to prospective home buyers.

Closing statement
See HUD-1 statement.

Cloud on title
Any conditions revealed by a title search that adversely affect the title to real estate. Usually clouds on title cannot be removed except by a quitclaim deed, release, or court action.

Coinsurance
A sharing of insurance risk between the insurer and the insured. Coinsurance depends on the relationship between the amount of the policy and a specified percentage of the actual value of the property insured at the time of the loss.

Coinsurance clause
A provision in a hazard insurance policy that states the amount of coverage that must be maintained - as a percentage of the total value of the property - for the insured to collect the full amount of a loss.

Collateral
An asset (such as a car or a home) that guarantees the repayment of a loan. The borrower risks losing the asset if the loan is not repaid according to the terms of the loan contract.

Collection
The efforts used to bring a delinquent mortgage current and to file the necessary notices to proceed with foreclosure when necessary.

Co-signor
A person who signs a promissory note along with the borrower. A co-signor's signature guarantees that the loan will be repaid, because the borrower and the co-signor are equally responsible for the repayment.

Commission
The fee charged by a broker or agent for negotiating a real estate or loan transaction. A commission is generally a percentage of the price of the property or loan.

Commitment letter
A formal offer by a lender stating the terms under which it agrees to lend money to a home buyer. Also known as a "loan commitment."

Common area assessments
Levies against individual unit owners in a condominium or planned unit development (PUD) project for additional capital to defray homeowners' association costs and expenses and to repair, replace, maintain, improve, or operate the common areas of the project.

Common areas
Those portions of a building, land, and amenities owned (or managed) by a planned unit development (PUD) or condominium project's homeowners' association (or a cooperative project's cooperative corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, etc.

Community property
In some western and southwestern states, a form of ownership under which property acquired during a marriage is presumed to be owned jointly unless acquired as separate property of either spouse.

Comparables
An abbreviation for "comparable properties"; used for comparative purposes in the appraisal process. Comparables are properties like the property under consideration; they have reasonably the same size, location, and amenities and have recently been sold. Comparables help the appraiser determine the approximate fair market value of the subject property.

Condemnation
The determination that a building is not fit for use or is dangerous and must be destroyed; the taking of private property for a public purpose through an exercise of the right of eminent domain.

Condominium
A real estate project in which each unit owner has title to a unit in a building, an undivided interest in the common areas of the project, and sometimes the exclusive use of certain limited common areas.

Construction loan
A short-term, interim loan for financing the cost of construction. The lender makes payments to the builder at periodic intervals as the work progresses.

Consumer reporting agency (or bureau)
An organization that prepares reports that are used by lenders to determine a potential borrower's credit history. The agency obtains data for these reports from a credit repository, as well as from other sources.

Contingency
A condition that must be met before a contract is legally binding. For example, home purchasers often include a contingency that specifies that the contract is not binding until the purchaser obtains a satisfactory home inspection report from a qualified home inspector.

Contract
An oral or written agreement to do or not to do a certain thing.

Conventional mortgage
A mortgage that is not insured or guaranteed by the federal government.

Cooperative (co-op)
A type of multiple ownership in which the residents of a multi-unit housing complex own shares in the cooperative corporation that owns the property, giving each resident the right to occupy a specific apartment or unit.

Cooperative corporation
A business trust entity that holds title to a cooperative project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements.

Covenant
A clause in a mortgage that obligates or restricts the borrower and that, if violated, can result in foreclosure.

Credit
An agreement in which a borrower receives something of value in exchange for a promise to repay the lender at a later date.

Credit history
A record of an individual's open and fully repaid debts. A credit history helps a lender to determine whether a potential borrower has a history of repaying debts in a timely manner.

Credit life insurance
A type of insurance often bought by mortgagors because it will pay off the mortgage debt if the mortgagor dies while the policy is in force.

Creditor
A person to whom money is owed.

Credit report
A report of an individual's credit history prepared by a credit bureau and used by a lender in determining a loan applicant's creditworthiness.

Credit repository (Bureau)
An organization that gathers, records, updates, and stores financial and public records information about the payment records of individuals who are being considered for credit.

Credit Score
A computer determined number (score) that reflects an evaluation of positive and negative credit information about an individual. Many lenders use this number when determining whether to extend credit. The score is available from the credit bureaus, usually for a fee. Credit Scores are sometimes referred to as "FICO" scores after the Fair Isaacs Company that developed the credit scoring model.

D

Debt
An amount owed to another.

Deed
The legal document conveying title to a property.

Deed-in-lieu
A deed given by a mortgagor to the mortgagee to satisfy a debt and avoid foreclosure. Also called a "voluntary conveyance."

Deed of trust
The document used in some states instead of a mortgage; title is conveyed to a trustee.

Default
Failure to make mortgage payments on a timely basis or to comply with other requirements of a mortgage.

Delinquency
Failure to make mortgage payments when mortgage payments are due.

Deposit
A sum of money given to bind the sale of real estate, or a sum of money given to ensure payment or an advance of funds in the processing of a loan.

Depreciation
A decline in the value of property; the opposite of appreciation.

Downpayment
The part of the purchase price of a property that the buyer pays in cash and does not finance with a mortgage.

Due-on-sale provision
A provision in a mortgage that allows the lender to demand repayment in full if the borrower sells the property that serves as security for the mortgage.

E

Earnest money deposit
A deposit made by the potential home buyer to show that he or she is serious about buying the house.

Easement
A right of way giving persons other than the owner access to or over a property.

Effective age
An appraiser's estimate of the physical condition of a building. The actual age of a building may be shorter or longer than its effective age.

Effective gross income
Normal annual income including overtime that is regular or guaranteed. The income may be from more than one source. Salary is generally the principal source, but other income may qualify if it is significant and stable.

Eminent domain
The right of a government to take private property for public use upon payment of its fair market value. Eminent domain is the basis for condemnation proceedings.

Employer-assisted housing
A housing initiative that offers several different ways for employers to work with local lenders to develop plans to assist their employees in purchasing homes.

Encroachment
An improvement that intrudes illegally on another's property.

Encumbrance
Anything that affects or limits the fee simple title to a property, such as mortgages, leases, easements, or restrictions.

Equal Credit Opportunity Act (ECOA)
A federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status, or receipt of income from public assistance programs.

Equity
A homeowner's financial interest in a property. Equity is the difference between the fair market value of the property and the amount still owed on its mortgage.

Escrow
An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate.

Escrow account
The account in which a mortgage servicer holds the borrower's escrow payments prior to paying property expenses.

Escrow collections
Funds collected by the servicer and set aside in an escrow account to pay the borrower's property taxes, mortgage insurance, and hazard insurance.

Escrow disbursements
The use of escrow funds to pay real estate taxes, hazard insurance, mortgage insurance, and other property expenses as they become due.

Escrow payment
The portion of a mortgagor's monthly payment that is held by the servicer to pay for taxes, hazard insurance, mortgage insurance, lease payments, and other items as they become due. Known as "impounds" or "reserves" in some states.

Estate
The ownership interest of an individual in real property. The sum total of all the real property and personal property owned by an individual at time of death.

Eviction / Ejectment
The lawful expulsion of an occupant from real property.

Exclusive listing
A written contract that gives a licensed real estate agent the exclusive right to sell a property for a specified time, but reserving the owner's right to sell the property alone without the payment of a commission.

Executor
A person named in a will to administer an estate. The court will appoint an administrator if no executor is named. "Executrix" is the feminine form.

F

Fair credit reporting act
A consumer protection law that regulates the disclosure of consumer credit reports by consumer/credit reporting agencies and establishes procedures for correcting mistakes on one's credit record.

Fair market value
The highest price that a buyer, willing but not compelled to buy, would pay, and the lowest a seller, willing but not compelled to sell, would accept.

Federal Housing Administration (FHA)
An agency of the U.S. Department of Housing and Urban Development (HUD). Its main activity is the insuring of residential mortgage loans made by private lenders. The FHA sets standards for construction and underwriting, but does not lend money or plan or construct housing.

FHA mortgage
A mortgage that is insured by the Federal Housing Administration (FHA). Also known as a government mortgage.

Firm commitment
A lender's agreement to make a loan to a specific borrower on a specific property.

First mortgage
A mortgage that is the primary lien against a property.

Fixed installment
The monthly payment due on a mortgage loan. The fixed installment includes payment of both principal and interest.

Fixed-rate mortgage (FRM)
A mortgage in which the interest rate does not change during the entire term of the loan.

Fixture
Personal property that becomes real property when attached in a permanent manner to real estate.

Flood insurance
Insurance that compensates for physical property damage resulting from flooding. It is required for properties located in federally designated flood areas.

Foreclosure
The legal process by which a borrower in default under a mortgage is deprived of his or her interest in the mortgaged property. This usually involves a forced sale of the property at public auction with the proceeds of the sale being applied to the mortgage debt.

Forfeiture
The loss of money, property, rights, or privileges due to a breach of legal obligation.

G

Government mortgage
A mortgage that is insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the USDA Rural Development Service (RDS).

Guarantee mortgage
A mortgage that is guaranteed by a third party.

Guaranteed loan
Also known as a government mortgage.

H

Hazard insurance
Insurance coverage that compensates for physical damage to a property from fire, wind, vandalism, or other hazards.

Home equity line of credit
A mortgage loan, which is usually in a subordinate position, that allows the borrower to obtain multiple advances of the loan proceeds at his or her own discretion, up to an amount that represents a specified percentage of the borrower's equity in a property.

Home inspection

A thorough inspection that evaluates the structural and mechanical condition of a property. A satisfactory home inspection is often included as a contingency by the purchaser.

Homeowners' association

A nonprofit association that manages the common areas of a planned unit development (PUD) or condominium project. In a condominium project, it has no ownership interest in the common elements. In a PUD project, it holds title to the common elements.

Homeowner's insurance

An insurance policy that combines personal liability insurance and hazard insurance coverage for a dwelling and its contents.

Homeowner's warranty (HOW)

A type of insurance that covers repairs to specified parts of a house for a specific period of time. It is provided by the builder or property seller as a condition of the sale.

Housing expense ratio

The percentage of gross monthly income that goes toward paying housing expenses.

HUD median income

Median family income for a particular county or metropolitan statistical area (MSA), as estimated by the Department of Housing and Urban Development (HUD).

HUD-1 statement

A document that provides an itemized listing of the funds that are payable at closing. Items that appear on the statement include real estate commissions, loan fees, points, and initial escrow amounts. Each item on the statement is represented by a separate number within a standardized numbering system. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing. The blank form for the statement is published by the Department of Housing and Urban Development (HUD). The HUD-1 statement is also known as the "closing statement" or "settlement sheet (or RESPA)."

I

Income property

Real estate developed or improved to produce income.

Index

A number used to compute the interest rate for an adjustable-rate mortgage (ARM). The index is generally a published number or percentage, such as the average interest rate or yield on Treasury bills. A margin is added to the index to determine the interest rate that will be charged on the ARM. This interest rate is subject to any caps that are associated with the mortgage.

In-file credit report

An objective account, normally computer-generated, of credit and legal information obtained from a credit repository.

Inflation
An increase in the amount of money or credit available in relation to the amount of goods or services available, which causes an increase in the general price level of goods and services. Over time, inflation reduces the purchasing power of a dollar, making it worth less.

Initial interest rate
The original interest rate of the mortgage at the time of closing. This rate changes for an adjustable-rate mortgage (ARM). Sometimes known as "start rate" or "teaser."

Installment
The regular periodic payment that a borrower agrees to make to a lender.

Installment loan
Borrowed money that is repaid in equal payments, known as installments. A car loan is often paid for as an installment loan.

Insurable title
A property title that a title insurance company agrees to insure against defects and disputes.

Insurance
A contract that provides compensation for specific losses in exchange for a periodic payment. An individual contract is known as an insurance policy, and the periodic payment is known as an insurance premium.

Insurance binder
A document that states that insurance is temporarily in effect. Because the coverage will expire by a specified date, a permanent policy must be obtained before the expiration date.

Insured mortgage
A mortgage that is protected by the Federal Housing Administration (FHA) or by private mortgage insurance (PMI). If the borrower defaults on the loan, the insurer must pay the lender the lesser of the loss incurred or the insured amount.

Interest
The fee charged for borrowing money.

Interest only mortgage
A mortgage loan that stipulates that only the monthly interest portion of the loan will be paid until a future date, usually in 1, 3 or 5 years. Borrowers must be aware that when the full payment of principal and interest starts the monthly payment will be substantially higher.

Interest rate
The rate of interest in effect for the monthly payment due.

Interest rate buydown plan
An arrangement wherein the property seller (or any other party) deposits money to an account so that it can be released each month to reduce the mortgagor's monthly payments during the early years of a mortgage. During the specified period, the mortgagor's effective interest rate is "bought down" below the actual interest rate.

J

Joint tenancy
A form of co-ownership that gives each tenant equal interest and equal rights in the property, including the right of survivorship.

Judgment
A decision made by a court of law. For judgments that require the repayment of a debt, the court may place a lien against the debtor's real property as collateral for the judgment's creditor.

Judgment lien
A lien on the property of a debtor resulting from the decree of a court.

Judicial foreclosure
A type of foreclosure proceeding used in some states that is handled as a civil lawsuit and conducted entirely under the auspices of a court.

L

Late charge
The penalty a borrower must pay when a payment is made a stated number of days (usually 15) after the due date.

Lease-purchase mortgage
A contractual agreement between a tenant and an owner where the owner agrees to credit a portion of the monthly rent toward a downpayment and convey title to the property to the tenant after a specified period of time for an agreed upon sale price.

Legal description
A property description, recognized by law, that is sufficient to locate and identify the property without oral testimony.

Liabilities
A person's financial obligations. Liabilities include long-term and short-term debt, as well as any other amounts that are owed to others.

Liability insurance
Insurance coverage that offers protection against claims alleging that a property owner's negligence or inappropriate action resulted in bodily injury or property damage to another party.

Lien
A legal claim against a property that must be paid off when the property is sold.

Line of credit
An agreement by a commercial bank or other financial institution to extend credit up to a certain amount for a certain time to a specified borrower.

Liquid asset
A cash asset or an asset that is easily converted into cash.

Loan
A sum of borrowed money (principal) that is generally repaid with interest.

Loan commitment
See commitment letter.

Loan origination
The process by which a mortgage lender brings into existence a mortgage secured by real property.

Loan-to-value (LTV) percentage
The relationship between the principal balance of the mortgage and the appraised value (or sales price if it is lower) of the property. For example, a $100,000 home with an $80,000 mortgage has a LTV percentage of 80 percent.

Lock-in
A written agreement in which the lender guarantees a specified interest rate if a mortgage goes to closing within a set period of time. The lock-in also usually specifies the number of points to be paid at closing.

Lock-in period
The time period during which the lender has guaranteed an interest rate to a borrower.

M

Margin
For an adjustable-rate mortgage (ARM), the amount that is added to the index to establish the interest rate on each adjustment date, subject to any limitations on the interest rate change.

Master association
A homeowners' association in a large condominium or planned unit development (PUD) project that is made up of representatives from associations covering specific areas within the project. In effect, it is a "second-level" association that handles matters affecting the entire development, while the "first-level" associations handle matters affecting their particular portions of the project.

Maturity
The date on which the principal balance of a loan, bond, or other financial instrument becomes due and payable.

Merged credit report
A credit report that contains information from three credit repositories. When the report is created, the information is compared for duplicate entries. Any duplicates are combined to provide a summary of your credit.

Modification
The act of changing any terms of the mortgage.

Monthly fixed installment
That portion of the total monthly payment that is applied toward principal and interest. When a mortgage negatively amortizes, the monthly fixed installment does not include any amount for principal reduction.

Monthly payment mortgage
A mortgage that requires payments to reduce the debt once a month.

Mortgage
A legal document that pledges a property to the lender as security for payment of a debt.

Mortgage banker
A company that originates mortgages usually for resale in the secondary mortgage market.

Mortgage broker
An individual or company that brings borrowers and lenders together for the purpose of loan origination. Mortgage brokers typically require a fee or a commission for their services.

Mortgagee
The lender in a mortgage agreement.

Mortgage insurance
A contract that insures the lender against loss caused by a mortgagor's default on a government mortgage or conventional mortgage. Mortgage insurance can be issued by a private company or by a government agency such as the Federal Housing Administration (FHA). Depending on the type of mortgage insurance, the insurance may cover a percentage of or virtually all of the mortgage loan. See private mortgage insurance (PMI).

Mortgage insurance premium (MIP)
The amount paid by a mortgagor for mortgage insurance, either to a government agency such as the Federal Housing Administration (FHA) or to a private mortgage insurance (PMI) company.

Mortgage life insurance
A type of term life insurance often bought by mortgagors. The amount of coverage decreases as the principal balance declines. In the event that the borrower dies while the policy is in force, the debt is automatically satisfied by insurance proceeds.

Mortgagor
The borrower in a mortgage agreement.

Multifamily mortgage
A residential mortgage on a dwelling that is designed to house more than four families, such as a high-rise apartment complex.

N

Negative amortization
A gradual increase in mortgage debt that occurs when the monthly payment is not large enough to cover the entire principal and interest due. The amount of the shortfall is added to the remaining balance to create "negative" amortization.

Net worth
The value of all of a person's assets, including cash, minus all liabilities.

No cash-out refinance
A refinance transaction in which the new mortgage amount is limited to the sum of the remaining balance of the existing first mortgage, closing costs (including prepaid items), points, the amount required to satisfy any mortgage liens that are more than one year old (if the borrower chooses to satisfy them), and other funds for the borrower's use (as long as the amount does not exceed 1 percent of the principal amount of the new mortgage).

Nonliquid asset
An asset that cannot easily be converted into cash.

Note
A legal document that obligates a borrower to repay a mortgage loan at a stated interest rate during a specified period of time.

Note rate
The interest rate stated on a mortgage note.

Notice of default
A formal written notice to a borrower that a default has occurred and that legal action may be taken.

O

Original principal balance
The total amount of principal owed on a mortgage before any payments are made.

Origination fee
A fee paid to a lender for processing a loan application. The origination fee is stated in the form of points. One point is 1 percent of the mortgage amount.

Owner financing
A property purchase transaction in which the property seller provides all or part of the financing.

P

Partial payment
A payment that is not sufficient to cover the scheduled monthly payment on a mortgage loan.

Payment change date
The date when a new monthly payment amount takes effect on an adjustable-rate mortgage (ARM) or a graduated-payment adjustable-rate mortgage (GPARM). Generally, the payment change date occurs in the month immediately after the adjustment date.

Personal property
Any property that is not real property.

PITI reserves
A cash amount that a borrower must have on hand after making a downpayment and paying all closing costs for the purchase of a home. The principal, interest, taxes, and insurance (PITI) reserves must equal the amount that the borrower would have to pay for PITI for a predefined number of months.

Planned Unit Development (PUD)
A project or subdivision that includes common property that is owned and maintained by a homeowners' association for the benefit and use of the individual PUD unit owners.

Point
A one-time charge by the lender for originating a loan or to reduce the interest rate. A point is 1 percent of the amount of the mortgage.

Power of attorney
A legal document that authorizes another person to act on one's behalf. A power of attorney can grant complete authority or can be limited to certain acts and/or certain periods of time.

Prearranged refinancing agreement
A formal or informal arrangement between a lender and a borrower wherein the lender agrees to offer special terms (such as a reduction in the costs) for a future refinancing of a mortgage being originated as an inducement for the borrower to enter into the original mortgage transaction.

Preforeclosure sale
A procedure in which the investor allows a mortgagor to avoid foreclosure by selling the property for less than the amount that is owed to the investor.

Prepayment
Any amount paid to reduce the principal balance of a loan before the due date. Payment in full on a mortgage that may result from a sale of the property, the owner's decision to pay off the loan in full, or a foreclosure. In each case, prepayment means payment occurs before the loan has been fully amortized.

Pre-qualification
The process of determining how much money a prospective home buyer will be eligible to borrow before he or she applies for a loan.

Prime rate
The interest rate that banks charge to their preferred customers. Changes in the prime rate influence changes in other rates, including mortgage interest rates.

Principal
The amount borrowed or remaining unpaid. The part of the monthly payment that reduces the remaining balance of a mortgage.

Principal balance
The outstanding balance of principal on a mortgage. The principal balance does not include interest or any other charges.

Principal, interest, taxes, and insurance (PITI)
The four components of a monthly mortgage payment. Principal refers to the part of the monthly payment that reduces the remaining balance of the mortgage. Interest is the fee charged for borrowing money. Taxes and insurance refer to the amounts that are paid into an escrow account each month for property taxes and mortgage and hazard insurance.

Private mortgage insurance (PMI)
Mortgage insurance that is provided by a private mortgage insurance company to protect lenders against loss if a borrower defaults. Most lenders generally require MI for a loan with a loan-to-value (LTV) percentage in excess of 80%.

Promissory note
A written promise to repay a specified amount over a specified period of time.

Public auction
A meeting in an announced public location to sell property to repay a mortgage that is in default.

Purchase and sale agreement
A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

Purchase money transaction
The acquisition of property through the payment of money or its equivalent.

Q

Qualifying ratios
Calculations that are used in determining whether a borrower can qualify for a mortgage. They usually consist of two separate calculations: a housing expense as a percent of income ratio and total debt obligations as a percent of income ratio.

Quitclaim deed
A deed that transfers without warranty whatever interest or title a grantor may have at the time the conveyance is made.

R

Rate lock
A commitment issued by a lender to a borrower or other mortgage originator guaranteeing a specified interest rate for a specified period of time. See lock-in.

Real estate agent
A person licensed to negotiate and transact the sale of real estate on behalf of the property owner. or home buyer.

Real Estate Settlement Procedures Act (RESPA)
A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

Real property
Land and appurtenances, including anything of a permanent nature such as structures, trees, minerals, and the interest, benefits, and inherent rights thereof.

Realtor®
A real estate broker or an associate who holds active membership in a local real estate board that is affiliated with the National Association of Realtors.

Recorder
The County Clerk who keeps records of transactions that affect real property in the county of purchase, including deeds and mortgages.

Recording
The noting in the registrar's office of the details of a properly executed legal document, such as a deed, a mortgage note, a satisfaction of mortgage, or an extension of mortgage, thereby making it a part of the public record.

Rehabilitation mortgage
A mortgage created to cover the costs of repairing, improving, and sometimes acquiring an existing property.

Remaining balance
The amount of principal that has not yet been repaid.

Remaining term
The original amortization term minus the number of payments that have been applied.

Repayment plan
An arrangement made to repay delinquent installments or advances. Lenders' formal repayment plans are called "relief provisions."

Right of first refusal
A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.

Right of survivorship
In joint tenancy, the right of survivors to acquire the interest of a deceased joint tenant.

S

Second mortgage
A mortgage that has a lien position subordinate to the first mortgage.

Secondary mortgage market
The buying and selling of existing mortgages.

Secured loan
A loan that is backed by collateral.

Security
The property that will be pledged as collateral for a loan.

Servicer
An organization that collects principal and interest payments from borrowers and manages borrowers' escrow accounts. The servicer often services mortgages that have been purchased by an investor in the secondary mortgage market.

Servicing
The collection of mortgage payments from borrowers and related responsibilities of a loan servicer.

Settlement
See closing.

Settlement sheet
See HUD-1 statement.

Special deposit account
An account that is established for rehabilitation mortgages to hold the funds needed for the rehabilitation work so they can be disbursed from time to time as particular portions of the work are completed.

Standard payment calculation
The method used to determine the monthly payment required to repay the remaining balance of a mortgage in substantially equal installments over the remaining term of the mortgage at the current interest rate.

Subdivision
A housing development that is created by dividing a tract of land into individual lots for sale or lease.

Subordinate financing
Any mortgage or other lien that has a priority that is lower than that of the first mortgage.

Survey
A drawing or map showing the precise legal boundaries of a property, the location of improvements, easements, rights of way, encroachments, and other physical features.

Sweat equity
Contribution to the construction or rehabilitation of a property in the form of labor or services rather than cash.

T

Tenancy by the entirety
A type of joint tenancy of property that provides right of survivorship and is available only to a husband and wife.

Tenancy in common
A type of joint tenancy in a property without right of survivorship. Contrast with tenancy by the entirety and with joint tenancy.

Title
A legal document evidencing a person's right to or ownership of a property.

Title company
A company that specializes in examining and insuring titles to real estate.

Title insurance
Insurance that protects the lender (lender's policy) or the buyer (owner's policy) against loss arising from disputes over ownership of a property.

Title search
A check of the title records to ensure that the seller is the legal owner of the property and that there are no liens or other claims outstanding.

Total expense ratio
Total obligations as a percentage of gross monthly income. The total expense ratio includes monthly housing expenses plus other monthly debts.

Transfer tax
State tax payable when title passes from one owner to another.

Truth-in-Lending
A federal law that requires lenders to fully disclose, in writing, the terms and conditions of a mortgage, including the annual percentage rate (APR) and other charges.

Trustee
A fiduciary who holds or controls property for the benefit of another.

U

Underwriting
The process of evaluating a loan application to determine the risk involved for the lender. Underwriting involves an analysis of the borrower's creditworthiness and the quality of the property itself.

Unsecured loan
A loan that is not backed by collateral.

V

VA mortgage
A mortgage that is guaranteed by the Department of Veterans Affairs (VA). Also known as a government mortgage.

Vested
Having the right to use a portion of a fund, such as an individual retirement fund. For example, individuals who are 100 percent vested can withdraw all of the funds that are set aside for them in a retirement fund. However, taxes may be due on any funds that are actually withdrawn.

Department of Veterans Affairs (VA)
An agency of the federal government that guarantees residential mortgages made to eligible veterans of the military services. The guarantee protects the lender against loss and thus encourages lenders to make mortgages to veterans.

Contact Information

Developmental Disabilities Mortgages	609-278-7521
Home Buyer Mortgages	800-NJ-HOUSE
Reverse Mortgages	609-278-7544
At Home Downtown	609-278-7550
Welcome Home/Kinship Care	609-278-7521
Potable Water	609-278-7554
Police and Firemen Retirement System Mortgage Program	800-NJ-HOUSE

U.S. Postal mailing address:
PO Box 18550
Trenton, NJ 08650-2085

Fedex, UPS and visitors:
637 South Clinton Avenue
Trenton, New Jersey 08611
(enter on Dye Street between
South Clinton & South Broad Streets)

Main switchboard: 609-278-7400
Hotline: 800-NJ-HOUSE
Website: www.nj-hmfa.com
or www.njhousing.gov

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Understanding the Home Buying Process

New Jersey Housing and Mortgage Finance Agency

NJ HMFA

NEW JERSEY DEPARTMENT OF COMMUNITY AFFAIRS

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